RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE MARKET: First, let's deal with reality. The reality is that on November 6 the Dow, the S&P 500 and my Primary Trend Index (PTI) all hit record highs. And the market continued up from there. You may have theories regarding what's going to happen or what should happen or what might happen, but in this business you either deal with reality or you end up wearing patched pants and socks with holes in them. You have to deal with reality and the reality is that the market has been hitting new highs.

Everyone has been amazed at the market's action, and they should be, because this has been an amazing, relentless climb. The bulls have their fingers crossed, and they're wondering (hoping) how long this extraordinary upside action can continue. The bears are also wringing their hands, but the bears are wondering how much longer it will be before this market tops out (or at least corrects).

The non-answer: despite what you read or hear, despite what the experts tell you -- no one on God's green earth knows how much longer and how much higher this market can climb.

PTI: However, there is one device which has been of great help and will continue to be of great help. It's my Primary Trend Index (see page 2 chart). I've written the following probably hundreds of times since 1971 (that's when I first began publishing the PTI chart), but here it goes again: AS LONG AS THE PTI CONTINUES IN A BULLISH TREND, THE MARKET WILL EITHER CONSOLIDATE OR MOVE HIGHER. The converse is just as true: when the PTI turns down on a trend basis, the market will head south -- guaranteed. **Reality** -- the PTI is hitting new highs.

I know of no device which is more sensitive to market action than my PTI. **(1)** If the internal structure of the market begins to deteriorate, the PTI will detect it, in which case the PTI will slow its rate of ascent. **(2)** If the *plurality* of the eight components which make up the PTI actually turn negative, the PTI will reflect it by turning down. **(3)** If the PTI continues down and then violates its 89-day moving average, the entire market picture will turn negative. As this is written, the PTI may be slowing its rate of ascent. It's also "stretched," meaning it is abnormally far above its 89-day moving average.

So it boils down to this, and bulls and bears please take note. Nothing I know of can predict or pin-point the end of this rise. However, deterioration and then a reversal to the downside on the part of the PTI will IDENTIFY THE END OF THIS RISE. Question: can we predict a reversal? -- NO. But can we **identify** a reversal? -- YES.

This market is loaded with a record number of uncovered shorts. Now there's nothing more discouraging (read frightening) to a short seller than *a market that dries up on the downside.* In order for a short seller to really make money, he needs a market that violates support while generating expanding volume on the downside. But that's not what's been happening. In fact, since July we've seen just the opposite -- the averages will violate a minor support level -- and volume dries up -- no downside volume, no selling. Consequently, for market students, I feel it is crucial to note whether this type of action continues -- or whether it is beginning to **change.**

Nov. 15 DJIA 6348.03; PTI 4713; A-D Ratio +2.20
Nov. 8 DJIA 6219.82; PTI 4689; A-D Ratio +1.78
Dow Yield: 2.06%; Dow Price/Earnings: 18.4
Dow 144-day MA: 5898; Dow 34-day MA: 6145
Dow Times Book Value: 4.74; PTI 89-day MA: 4621
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 391.92; Gold-PTI: 357

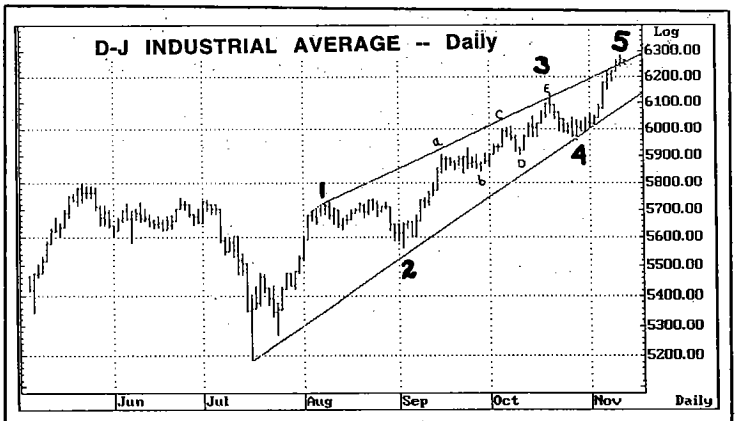
An old Wall Street adage tells us that "no tree grows to the sky," but this tree has certainly been making a run for the clouds. At some point the tree will topple over, I'll stake whatever reputation I have on that -- it's not a question of whether, it's a question of WHEN.

Frenzy: The great bull market began back in December 1974 at Dow 577. Referring to the present -- since July of this year the Dow has climbed over 1000 points. This means that in a mere four months the Dow has added points equal to almost twice the entire value of the Dow when this bull market started.

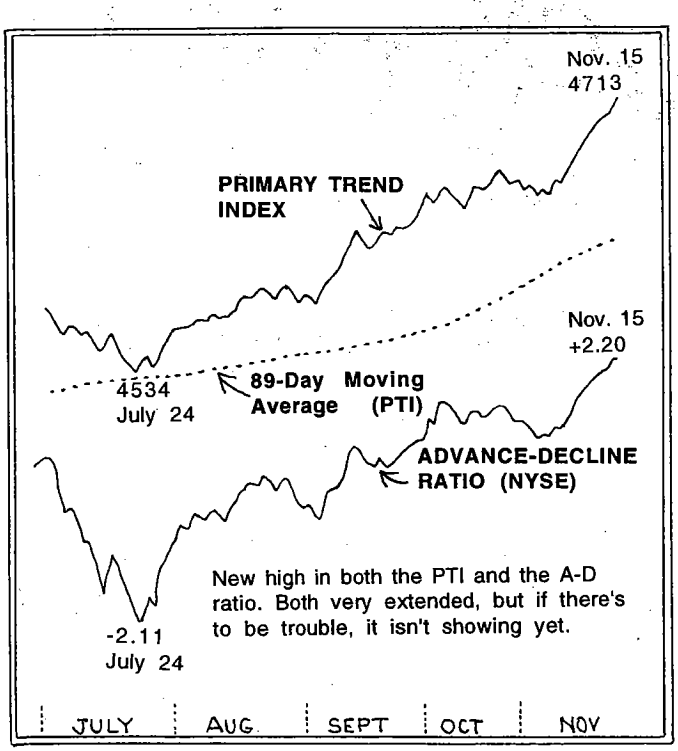
It all reminds me of the gold action during late-1979. Gold, at the beginning of the bull market in 1970, was selling for around 40 bucks an ounce. Towards the end of 1979 gold was rising as much in a day as its entire price at the beginning of the gold bull market. To me that was classic frenzied action.

Once gold finally topped out in early-1980 at a price of over $800, it never stopped dropping. Ultimately, I expect the same kind of action to materialize in the stock market. But back to reality -- first, the market has to top out -- and it's not there yet.

The election is over. Were there any surprises, or to be more specific, surprises that the stock market has failed to discount? I don't think so.



I haven't applied Elliott Wave Analysis to this market in many years (I leave that to Bob Prechter). However, I want to apply Elliott to the current pattern in the Dow. Here we see a "rising wedge" pattern, which in itself possesses bearish connotation. The pattern has also assumed the form of the classic Elliott five waves (waves 1, 3 and 5 are rising; waves 2 and 4 are corrective). Of course, there's always the chance that wave 5 will extend, but there's also the chance that wave 5 will end the rise. Proof of the rise's end would be (1) a violation of the lower trendline, which would entail the Dow breaking below 6100, and (2) an even more convincing proof if the Dow breaks below point 4, which comes in at Dow 5972.73.



Here's a question I often ponder. How important is past history in telling us what we can expect in the present? History is obviously important, but it never gives us ALL the answers.

Let's take an historical example and see how it works out. In a recent column in *Time* magazine columnist Dan Kadlec writes, *"A larger snapshot is revealing. Since 1928 the S&P 500, a broad market gauge, has risen 5% or more in the three months preceding a presidential election on six occasions: 1928, 1936, 1940, 1968, 1972, 1980. It's doing that this year too. Amazingly, in all six cases, the S&P 500 fell during the 12 months immediately following those elections -- by a whopping average of 12%."*

I decided to go to my historical charts and check the market action **following each of the above election years.** First, we know that following 1928 (actually late in 1929) the market crashed. In **1929** the Dow lost, from high to low, a whopping 48%. Next we have **1937.** The Dow hit a peak in August of '37, then dropped a huge 42%. Both the '29 and '37 declines were obviously severe bear market collapses following election years.

In **1941**, the year following the 1940 election, the Dow dropped 9.5%, not too bad, but costly for many individual stocks. Next is 1969, the year after Nixon was elected. The year **1969** saw the Dow top out in May and decline to December, a costly loss of 20% (many of my older subscribers remember this one only too well). Now comes **1973,** the year after Nixon was re-elected. The year 1973 saw a vicious bear market in which the Dow lost 25% of its value -- and the losses continued into late 1974 (my subscribers and I bought at the '74 bottom). Finally, we have the year **1981** (Reagan was elected in 1980) in which the Dow suffered an April to October loss of 19%.

So there we have some of what I consider fascinating history. Each presidential election (preceded by a 5% run-up in the S&P) was followed by some kind of trouble in the following year. Of course, the average percentage of those declines was affected greatly by two severe bear market declines, those of 1929 and 1937.

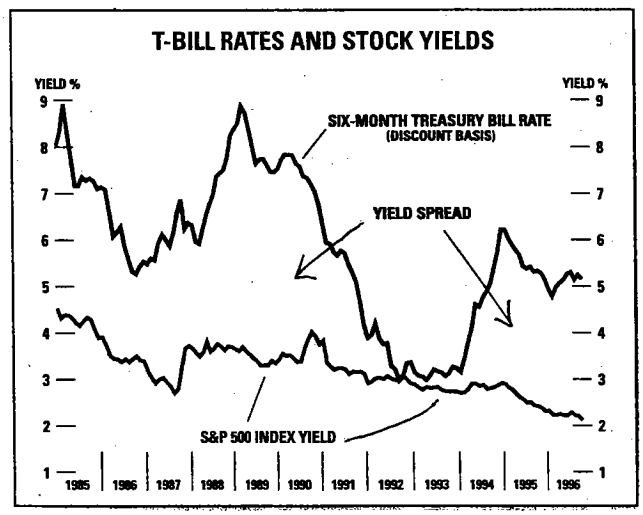
Which brings us to the question, will history repeat? Will past history give us a blue-print as to what's in store for us in 1997? My own thinking is "probably." I'm guessing that the market is setting itself up for trouble in '97. But there's another important question. Will the trouble be on the order of 1941's relatively mild 9.5% drop or will it be more like 1929's horrendous 48% drop? Unfortunately, there's no way of knowing. History doesn't tell us that.

Robert Rhea, the great Dow Theorist of the '30s made one rather simple but fundamental observation, one that I've never forgotten. Rhea wrote, *"Every movement in the Averages, minor, secondary or primary, is eventually corrected."*

That set me to thinking about the following: I have always been of the opinion that the current great bull market started in 1974 -- at the Dow low of 577. I don't feel that the bull market has ever been fully corrected, in the sense that we have never experienced a true primary bear market.

What is so ominous and what makes us old-timers so nervous is the *potential extent* of the correction (or bear market) when it finally arrives. From the 1974 low the Dow has now climbed roughly 5600 points. Every bear market in history has wiped out AT LEAST half of the preceding bull market's gains. I'll leave it to you to compute where the next primary bear market could take the Dow.

Comment: This is *S&P's* ("The Outlook") chart of the *yield spread* between stocks and the six-month T-bill. In "normal" markets, the kind of yield spreads you see here would be highly dangerous. After all, you can now get two-and-one-half times the yield on a T-bill that you can on the S&P 500. Ah well, this is a New Era, and the old relationships no longer apply. What's happened, of course, is that this market is pricing itself for perpetual growth, and as we grizzled old-timers know, economies grow and economies contract.



INVESTMENT POSITION: With total Dow dividends at 129.82, the yield on the Dow is now very close to 2%. With total dividends at $14.84, the yield on S&P 500 is now right on 2%. These are the lowest returns in stock market history. At these prices the market is obviously pricing in years of forthcoming growth while it is ignoring the possibility of an earnings surprise somewhere ahead.

Against this, market ACTION has been bullish. And we must add three plusses to the market's overall picture: (1) the advance-decline ratio (see page 2 chart) has rallied to a new high; (2) the Transportation Average has rallied and is now less than 100 points below its May high; and (3) bonds have turned strong with the bond futures rising to a high for the year.

Add it all up, and you have a super-expensive market that has continued to grind higher -- the picture is as fascinating as it is dangerous. Historically, at these thin values, **conservative**

investors have always been sellers. But ignoring the thin values, the **public** continues to be an eager buyer (mostly via mutual funds).

Take your choice -- which side do you want to be on?

HISTORY: In this business, perspective can be a big help. Following are some very significant dates in stock market history. As for me, I began watching and studying the markets in 1945, and 13 years later, in 1958, I started *Dow Theory Letters.* Many of my subscribers have been with me ever since my first report, and a number of these dates will bring back fond (and in a few cases, not so fond) memories. Clearly, the next important date in this series will be the day when this great bull market which began in late-1974 finally tops out.

July 3, 1884: This is the date of the first stock average published by Dow Jones in the *Customer's Afternoon Letter,* the forerunner of the *Wall Street Journal.* The first average of US stocks contains closing prices of 11 stocks -- nine railroads and two manufacturing firms. This Average begins at a value of **40.94.** From there, the Average declines gradually, and on August 8, 1896 it falls to **28.48;** this represents the lowest point in history for the Industrial Average.

Jan. 12, 1906: After 22 years of trying, the D-J Industrial Average finally closes over **100.**

Sept. 3, 1929: Dow reaches a high close of **381.17,** and the great bull market of the "Jazz Age" ends.

Oct. 28, 1929: Dow drops 38.33 points, a loss of almost 13% of its value in a single day. This is the signal for the advent of the Great Depression.

July 8, 1932: Dow closes at **41.22,** and here history's greatest bear market ends. Dow Theorist Robert Rhea calls the bottom to the exact day. The Dow never again sees this low level.

August 14, 1937: The 1932-37 bull market tops out at **190.02.** It's followed by a disastrous decline that literally cuts the Dow in half in a matter of six months.

April 28, 1942: The Allies are losing World War II. At the depths of pessimism, the Dow hits an historic low of **92.92.** From there the primary trend turns up, forecasting an ultimate Allied victory. Dow Theorist Justin Barbour calls the exact bottom of the bear market (I have his brilliant report to prove this).

May 29, 1946: The bull market tops out at Dow **212.50.** This is the highest Dow close since the 1930s. The 1942-46 bull market is accompanied by a massive rise in market breadth as almost every stock on the Big Board and the Amex moves higher.

June 13, 1949: The bear market hits bottom at Dow **161.60.** Dow Theorist George Schaefer calls the bottom to the day and forecasts a coming great bull market. Subsequent events confirm Schaefer's brilliant prediction.

February 9, 1966: The mighty 1949-66 bull market dies at Dow **995.15.** My subscribers catch this one. We are out.

Nov. 14, 1972: Dow closes above **1,000** for the first time. The Transports refuse to confirm.

Dec. 6, 1974: After eight years of confusing up-and-down action, the Dow closes at a final crushing bear market low of **577.60.** This ends the worst bear market since the 1930s (my veteran subscribers remember this date well). Happily, I called for an end to the bear market -- we are heavy buyers of stocks here.

Jan. 8, 1987: Dow closes above **2,000** for the first time.

Oct. 19, 1987: Dow plunges a record 508 points, wiping out 22.6% of its value in a single day.

April 17, 1991: Dow closes above **3,000** for first time.

Feb. 23, 1995: Dow closes above **4,000** for first time.

Nov. 21, 1995: Dow closes above **5,000** for first time.

March 8, 1996: Dow drops 171.24 points, the third worst point drop in history but with the Dow in the stratosphere this represents a percentage drop of only 3.04%.

Oct. 14, 1996: In less than a year from its 5,000 level, the Dow climbs above **6,000.** The Dow yield drops to a record low 2.15%.

NOTES & QUOTES: Bill Clinton may be the luckiest president in US history. Why do I say that? (1) No major wars in his first four years. (2) A stock market that didn't have as much as a 10% correction in his first four years. (3) The longest economic expansion without a single quarter of negative growth in this century. (4) No noticeable pick-up in inflation in his first four years. (5) Despite an endless parade of personal "troubles," he was not indicted in his first four years. (6) Fed Chairman Greenspan has not made a move to tighten interest rates, causing many to feel that the Chairman, a life-long Republican, is acting more like a Democrat. (7) Republicans stupidly ignored the women's vote, a vote which cost them the presidency (working women voted 57% to 34% for Clinton). (8) Finally, Clinton ran against a presidential opponent who was "too old," close to inarticulate and literally "un-electable."

GOP plans to keep up pressure on Clinton

By Dori Meinert
COPLEY NEWS SERVICE

WASHINGTON — After retaining control of the House and Senate in Tuesday's elections, Republican leaders yesterday said it is their "responsibility" to investigate alleged financial and ethical improprieties by the Clinton administration.

While the GOP's primary focus in the 105th Congress will be "to do the people's business," Senate Majority Leader Trent Lott, R-Miss., told reporters that "we have a responsibility in a variety of ways to take a look at the allegations and what appears to be wrongdoing, and I'm sure that will occur in the normal course of events."

At the top of the list is the controversy

No matter, now we've got four more years of Clinton -- so let's see how he does when there's no more campaigning to do (Clinton's spent his whole life campaigning), and he finally has to get down to business. In my opinion, as easy as Clinton had it during his first four years, he's going to face just the opposite during his second four years. I'm guessing that everything is going to "hit the fan" between now and the end of the Clinton presidency . . . Bumper sticker seen last week: "Al Gore in '97." Mmm, think about that one.

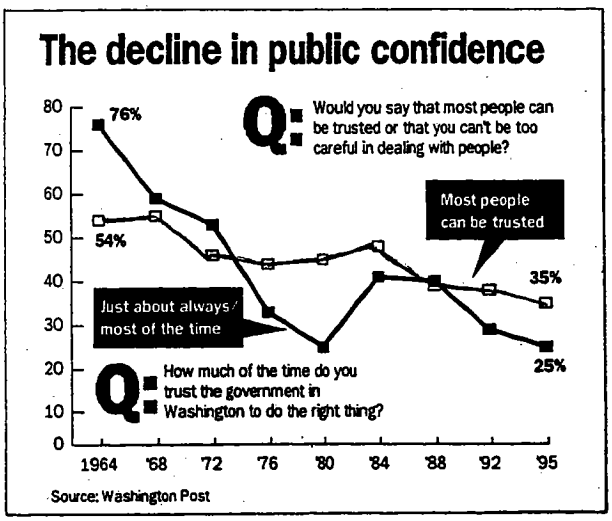
According to last week's headlines, Republicans say they will seek "common ground" with Clinton. Yeah, right. The Republicans are still smarting (to put it mildly) about Clinton stealing their programs and lying that Republicans plan to "destroy" Medicare and Social Security. In my opinion, Clinton could spend a large part of his second term in court, trying to defend himself against a long list of accusations, including bank fraud, tax fraud, perjury, obstruction of justice, misusing federal funds, selling government jobs, conspiracy and, of course, sexual harassment.

But wait -- couldn't Clinton pardon one and all? If Clinton has the unmitigated chutzpah to issue wholesale pardons, the House could

impeach him on grounds of using his pardoning power to obstruct justice and engage in cover-ups. A president can be removed from office by a two-thirds vote of the Senators present.

The big question, as the *WSJ* put it, is "what did Clinton know and when did he know it?" Adds the *Journal,* "A small army of prosecutors, congressional investigators and reporters are already mobilized for a second Clinton term. Three independent counsels are scrutinizing current and former administration officials. The Justice Dept. is examining allegations of improper foreign fund-raising . . . and separately the Supreme Court will decide by next year whether Ms. Jones can proceed with her sex-harassment suit against Mr. Clinton while he's still in office."

To me, one of the great and unexplained ironies of today is that Americans have lost trust in each other, lost trust in their neighbors, lost trust in their politicians, lost trust in their bosses, in many cases they have even lost trust in their own mates (just check the adultery rates). The *Washington Post* recently ran a poll in which they asked people about trust. You can see what's happened. In 1964 a full 76% of those polled stated that they were trusting. In 1995 the percentage dropped to 35%. Put it this way -- today trust in general has sunk into the basement.



People can get used to almost anything -- even including distrust. So today I really believe that Americans have become so used to distrusting, that they were willing to elect probably the most untrustworthy president in US history. And I ask myself, "What are people thinking?" I imagine they are thinking, "Clinton is a typical politician, and everyone knows that politicians are untrustworthy liars -- so hey, what's so different about Clinton?"

To me the real irony is this -- while Americans today have become cynical and untrusting, they are amazingly willing to trust the stock market. Here we have a stock market that has not declined as much as 10% over the last six years, we have a stock market featuring the lowest yields in history, we have a stock market moving into a presidential second term and into a seventh decennial pattern year as well -- and yet the public continues to pour its money into the stock market. Talk about trust -- you're seeing it on Wall Street and Main Street.

But wait, now we have thousands of mutual funds. These funds, investors tell themselves, are run by professionals, and if your money is run by professionals, why aren't the risks reduced tremendously? At any rate, it's obvious that the public feels that its money is relatively "safe" if it's in a mutual fund. What else explains the fact that billions of dollars continue to pour into the funds each week? What else explains that even the Social Security trust is now thinking about placing a chunk of its money into equities?

* *

Jim Grant notes the following: "US Financial markets in 1996 are dominated by two unprecedented financial flows. **(1)** First is the purchase of Treasuries by foreign banks. Now totaling $596 billion . . . such investments have risen by 23% in the past year and by 44.9% in the past two years." **Russell comment:** The Bank of Japan over the past few years has financed practically the whole US current account deficit. How long can this go on? **(2)** "The second unprecedented financial flow is the purchase of domestic equity mutual funds. There is nothing like it in the postwar era -- or indeed, as far as we know, in any era." **Russell comment:** To me, what is so dangerous about this is that most of this fund money has come in since 1990, and these post-1990 "investors" have never seen a bear market. Furthermore, the new buyers are treating mutual funds as though they were a form of savings. I feel this whole process opens the way to a potential disaster.

* *

One of the big worries that any nation has is the international competitive costs of its labor. Last week's *Economist* put it this way, "Whom would you rather employ -- one German worker, two Americans, five Taiwanese, or 1287 Chinese?" In 1995 a German worker cost his employer $32 an hour, making him the world's most expensive worker. Against this a Japanese worker cost $24 an hour and an American costs a mere $17. Americans and Europeans have all along worried about low-rate Asian producers. But now the Asians themselves are worried about super low-cost Indian and Chinese workers, the latter competing for 25 cents an hour. This chart shows the hourly cost of workers in 27 nations.

Job's worth

Hourly labour costs in manufacturing, $

	1985	1995
Germany	9.60	31.88
Japan	6.34	23.66
France	7.52	19.34
United States	13.01	17.20
Italy	7.63	16.48
Canada	10.94	16.03
Australia	8.20	14.40
Britain	6.27	13.77
Spain	4.66	12.70
South Korea	1.23	7.40
Singapore	2.47	7.28
Taiwan	1.50	5.82
Hong Kong	1.73	4.82
Brazil	1.30	4.28
Chile	1.87	3.63
Poland	na	2.09
Hungary	na	1.70
Argentina	0.67	1.67
Malaysia	1.08	1.59
Mexico	1.59	1.51
Czech Republic	na	1.30
Philippines	0.64	0.71
Russia	na	0.60
Thailand	0.49	0.46
Indonesia	0.22	0.30
China	0.19	0.25
India	0.35	0.25

Source: Morgan Stanley

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In the last Letter I talked about the difference between market condition, what the market is supposed to do, and market action, what the market's actually doing. The *Bank Credit Analyst* now notes that world liquidity-growth has turned down -- and it's happening in the face of an acceleration in world growth. This in turn should squeeze bond markets worldwide, which will impact on the world's stock markets. That's the theory -- let's see what actually happens in the stock markets.

* *

Got back from my three-day whirlwind trip to New York City. Each time I go to NYC, which is about every two years, it seems as though the City's population has increased. I note, however, that more people seem to be walking to and from work (sneakers are everywhere). I also noted that the City has been "cleaned up," in the sense that there's less litter, less bags of garbage, very few hustlers on street corners selling watches, umbrellas, ties, books, etc. Had lunch with Marty Zweig, whom I've known for 25 years. One thing was obvious; we're both getting older (but do you know anyone who's getting younger?). At Daniel (arguably the best restaurant in NY), I ran into Steve Greenberg. It's incredible but I don't think I've ever been to NYC when I haven't run into Steve (he has gray hair down to his shoulders and is always surrounded by beautiful women). Steve ran Anametrics which featured the writing of the late Edson Gould, one of the greatest and most original analysts ever to hit Wall Street . . . We saw the Vermeer exhibit at the Met (the Met is just an incredible museum, you could spend a year in it and not see half of what's there). Met my sister, Kate (she lives in New Rochelle) and we made the opening of the huge Nike-Town, a six-story explosion of sneakers, sportswear, videos, etc. We were going to eat soup at Yeganah's, the "Soup Nazi," a take-out place famous for great soups and for an owner who tosses people he doesn't like out of his restaurant. Now a copy-cat outfit, "Soup Nutsy," has opened a competing soup store and promises to open 500 Soup Nutsy's around the country (watch for soup-and-bread stores in your neighborhood, it's the coming rage) . . . On our third day of visiting it got cold, and all I had with me was a light leather jacket (living in San Diego, I'd forgotten that in Gotham the thermometer can drop). Oh yes, travel time from our hotel to our

house in La Jolla -- just short of nine hours. Does anyone wonder why I hate traveling? The best part of any trip to me is landing in warm, sunny San Diego. I love those waving palm trees. Furthermore, San Diego (boy, am I prejudiced) always looks newer and cleaner than the Eastern cities. Secret confession: I always know when I hit the San Diego airport -- the girls wear their hair long, and everyone looks like they've just climbed out of a bathtub.

* *

After blanketing NYC and Jersey, Donald Trump wants to go international (even though his stock has dropped more than 50%). Last week Trump held a press conference in Moscow, in which he laid out his plans to build an office and apartment complex styled after his Trump Tower in Manhattan. Actually, the Moscow real estate market has been booming. Office space in Moscow is going at an incredible $93 a square foot a year, which is three times the current average of $27.75 in Manhattan. Even the lowliest Moscow office space rents at $45 to $70 a square foot. The only problems with doing business in Russia -- you may have to deal with the Mafia and you also have a good chance of being shot.

* *

Wall Street is drooling at the prospect of skimming off tens of billions of dollars in commissions a year if Social Security decides to move into equities or if the SS system is partly privatized. One thing is sure, there are going to be some MAJOR changes coming up in SS. And since the SS system has never been funded, the changes are not going to be happy ones.

* *

Europe continues to fret and fumble on the Euro, the prospective "single currency." Ironically, Germany, the powerhouse of Europe will not be meeting the '97 criteria ('97 is the critical year for meeting the single currency target). Germany's tough anti-Euro lobby will get a major boost if this winter German unemployment, as expected, rises to new postwar record highs. Fiscal austerity and massive layoffs are fueling popular sentiment against the Euro in Germany. The prediction is that German unemployment will hit 10.3% this winter.

Everything is a trade-off. If the Euro single-currency comes into being, the banks figure it could cost them $5 billion in lost cross-country transfers. Since the European Union now accounts for half of all global cross-border payment revenues, the Euro could be a devastating blow to the banks' existing franchise for international wholesale money transmission services.

* *

Switzerland has wallowed in economic stagnation during the '90s with economic growth now down to just 0.2% (although the many experts suggest minus growth coming up -- in the US we call this recession). The faltering economy is blamed on the still-expensive Swiss franc, which has recently dropped from 86 cents to 79. A letter from Switzerland just sent to me by Marc Faber via Hong Kong runs, as follows: "Here in Switzerland deflation is not a possibility but a new fact of life. Just take a walk down Zurich's Bahnhofstrasses, and you will quickly realize that fixed prices are a thing of the past. Those shops that have survived (and there are plenty of boutiques that have already gone bust) offer huge discounts, but even with 50% discounts people are hardly lured into buying. Nobody expects wage raises anymore (the Swiss are lucky if they can keep their jobs) and salary cuts are the norm of the day. Even civil servants fear for their jobs, and Zurich's government employees are likely to have a 5% wage reduction in 1997. What about real estate? You better not try to sell a flat or a home hoping to achieve anything near the price prevailing 3 or 4 years ago. You can virtually not sell anything at a reasonable price and thousands of home owners who bought in the late-80s are defaulting on their mortgages. Maybe I should add that Switzerland's per capital mortgage indebtedness is the highest in the world. This explains the banks' current problems." **Russell comment:** On top of everything else, I hear the tourist business in Switzerland is the worst in years. What's going on?

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As opposed to what's happening in Switzerland, events are happier here in the States where optimism reigns. Take Houston, for instance, where a just-passed referendum (51% voted "yes") approved a new downtown stadium to house the Astros. Price for the stadium -- a whopping $265 million (hey, that's over a quarter of a billion dollars!). As for major league baseball, total salaries in '97 are slated to go over $1 billion for the first time.

* *

Pot: California, courtesy of Prop. 215, has legalized marijuana for "medicinal purposes." However, buying and selling pot will not be allowed. This means that people can grow their own weed or be given pot by a doctor. Written prescriptions are not required, only the "recommendation" of a doctor. In Arizona a written prescription will be required. And ah yes, the "Berkeley Prescription Cannabis Growers and Buyers Club" set up a Web site for people seeking marijuana. **Russell opinion:** I don't like anyone getting high. However, I don't think getting drunk on alcohol is any better or worse than getting high on pot. As far as getting high while driving, I'm for zero tolerance. Get picked up for drunk driving and lose your license for five years. Next time -- lose it forever.

* *

Everybody's wearing blue jeans, and every designer wants his or her own brand. Why? Designer blue jeans sell anywhere from $65 to $135. But the cost to the manufacturer (according to *Forbes*) is "$8 for the cheapest pair to around $15 for the top of the line." Also from *Forbes*, "Around here we call them soybeans," says Harry Bernard, a principal in the San Francisco-based consulting firm of Colton Bernard, "I defy you to find two pairs of jeans from anyplace in the world and tell me the difference." **Russell comment:** Well, there's a little difference. I like Levi 540s, the jeans fabric is softer, and the material's lighter -- so there.

* *

I've said it before, and I'll repeat it -- the best new automobile buy on the market is the Mercedes E-320. I have one, and it's hands-down, the best car I've ever owned, and I've owned a lot of cars from VW Beetles and vans to Pontiacs, Caddies, Chevys, BMWs, you name 'em. Evidently, the public is beginning to sense the same thing. Mercedes-Benz sales are up 23.9% over last year (BMW sales are up 14.4%). Ironically, sticker prices, not hood ornaments, are what the German luxury car makers are touting these days. They know that their cars (compared with almost all other cars that are anywhere near their price range) are bargains.

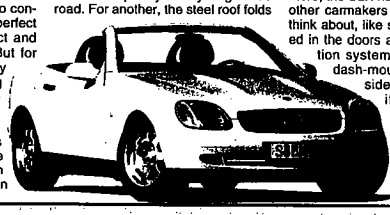
Around January or February Mercedes will be delivering their new SLK, a super-charged two-place roadster with a metal top that electronically folds into the trunk. The SLK's are sold out through 1998, and the write-ups are terrific. Yes, I bought one, and I'm waiting for maybe February delivery. Here's the review from the latest *Popular Mechanics.*

FIRST DRIVE

Mercedes SLK

● Leave it to Mercedes-Benz to conceive, engineer and build the perfect car. Granted, no car is perfect and every car is a compromise. But for what it is—an entry-luxury sports car—there is nothing better. And apparently, carbuyers know a good thing when they see it. Despite a $40,000 price tag, Mercedes reports that it is already sold out of the 2-seater worldwide through 1998 and the car hasn't even gone on sale yet. So what's so great about it? For one, it looks fabulous. It's definitely a Mercedes, yet as sleek and contemporary as anything on the road. For another, the steel roof folds back with the touch of a button, instantly transforming the coupe into a glorious open-air convertible. What's more, the SLK has standard features other carmakers are just starting to think about, like side airbags mounted in the doors and a child recognition system that prevents the dash-mounted passenger's-side airbag from firing if a child is sitting in the passenger seat. It all adds up to a car that is a fantastic ride and, yes, a great value.

—Joe Oldham



POPULAR MECHANICS • DECEMBER 1996

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Money: It pays to be a top heavyweight fighter. Check this: Tyson made $15 million on the Seldon fight; he made $30 million on the Bruno fight; he made $10 million on the Mathis fight; he made $25 million on the McNeeley fight. I don't know yet what he made on the Holyfield fight, but the fight was the first in history to gross $100 million. The odds were 25-1 on Tyson, but just before the fight the odds dropped to 5-1. With huge odds favoring Tyson, savvy betters took Holyfield and bookies suffered millions of dollars in losses in what was called "the worst disaster in Vegas sport-book history." Now promoter Don King is touting a re-match as a "100 million" dollar affair, but who knows -- Holyfield may decide to retire (it will probably be up to Holyfield's new wife -- who is a physician).

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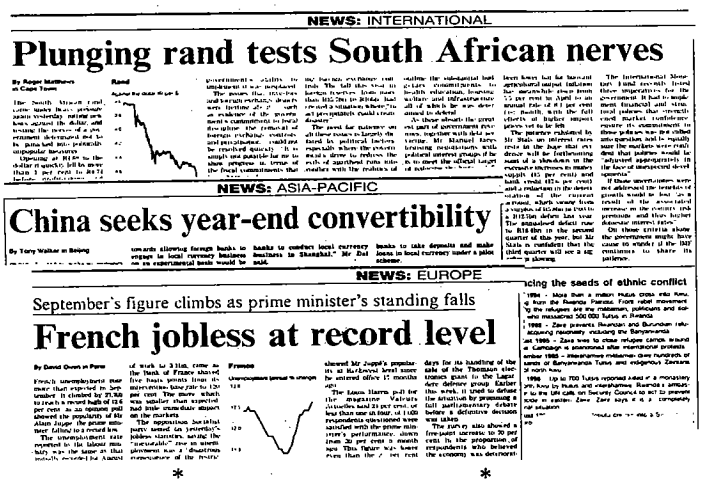
If you're truly and seriously interested in what's going on in the world, you've got to read the *Financial Times* of London and the *International Herald Tribune.* Here are three headlines from last

week's *Financial Times*. **Russell comments:** The Chinese yuan is going to be a major currency. Convertibility is a first step . . . Unemployment in Europe is a real problem with France at 12.5% and Germany at 10.5%. The normal reaction would be an easing of interest rates, plus printing money, but with all of Northern Europe wanting to get into the single-currency club, inflationary treatments are a no-no.



NEWS: INTERNATIONAL

Plunging rand tests South African nerves

NEWS: ASIA-PACIFIC

China seeks year-end convertibility

NEWS: EUROPE

September's figure climbs as prime minister's standing falls

French jobless at record level

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Hearts: A subscriber just sent me a pamphlet put out by the American Heart Association in which they warn against chelation. Chelation is the recognized medical treatment for lead poisoning, but when it is used to clear arteries the AHA deems it to be "dangerous." The AHA pamphlet is amazing. They are against chelation because they say it's never been scientifically proven to work. So why doesn't the AHA put chelation to the test? Because, they say, a test would be too expensive, and why test it because after all, they don't really think it will work. Talk about twisted logic! The pamphlet then addresses the accusation that doctors avoid chelation because if it works, it would put doctors out of business. Ridiculous, says the AHA, because if chelation worked tens of thousands of people would use it and the doctors would make more money. C'mon, a series of 30 chelation treatments costs $2,500 against $65,000 for a bypass. Chelation is done in a doctor's office while bypass is done in a hospital. If chelation were widely used, hospitals (which survive on surgery) would go broke. The AHA pamphlet -- a package of illogic, prejudice, hearsay and just plain stupidity.

A Bit of Market Philosophy: I've been watching the stock market since the mid-1940s. After 10 or 20 years, a person develops a market philosophy (you either do that or you lose your sanity). Occasionally, very occasionally, you witness a market move that seems impossible. You've never seen anything like it before. Ah, that's when your philosophy comes to the fore.

When the market is in the throes of a massive move either up or down (for instance, 1973-74 on the downside or, in the current case, 1996 on the upside), I look at the situation this way: there's a **"target"** somewhere ahead, and the market is fated to get to that target. The target may be Dow 6500 or Dow 7000 or Dow 8000 or it may be only 10 points above today's close. The truth -- there's absolutely no way of knowing.

So I look at it this way --*"Every ten points higher is simply ten points nearer that ultimate target-top. The higher the market climbs, the faster it climbs, the sooner the market will reach its target."* And let's face it, this market isn't wasting any time. But the salient point is that there's no sense in arguing with the rise or condemning the rise or cursing the rise. Instead, watch the rise, follow it, enjoy it, respect it, let it be.

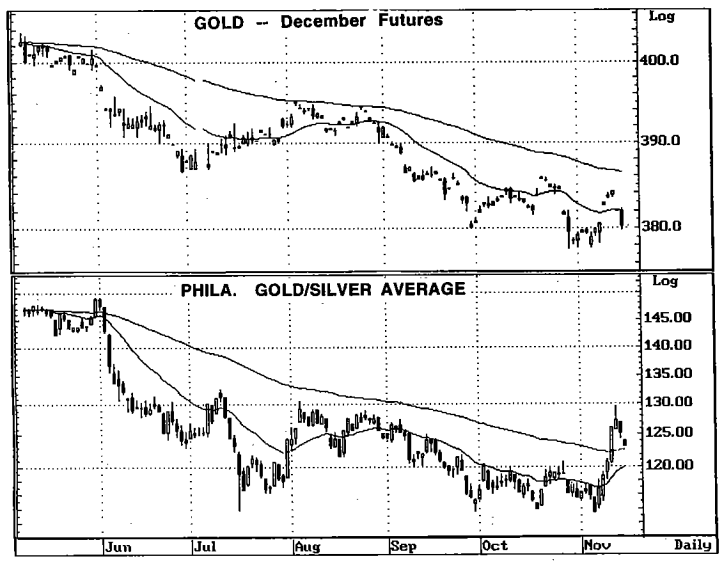
GOLD: Honest, you do get the feeling that "somebody" most definitely doesn't want gold to rise. I can only think it's the central banks, who are wrestling with the problem of making paper money acceptable throughout the world (and, of course, next in the paper parade comes the Euro, which is supposed to eventually take the place of all European paper -- even including the mighty D-mark).

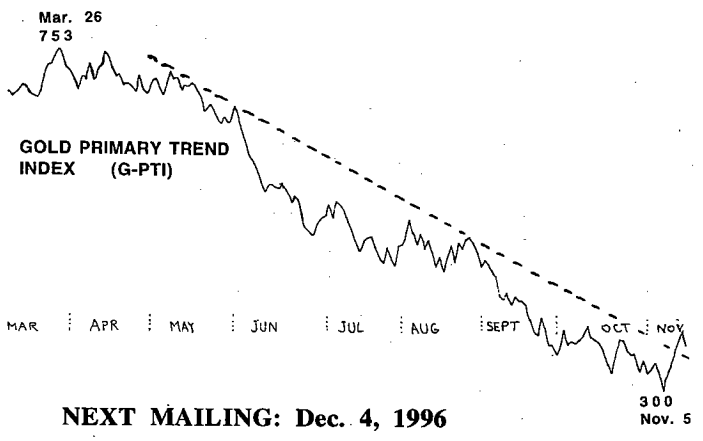
Last week on November 13 gold (Dec. futures) rallied as high as 384.10, but on November 15 gold got whacked down just below 380 again (see chart).

The XAU Gold/Silver Average fared better. On November 13, the XAU rallied as high at 129.63, and on the correction the XAU sank back to just above its 34 day moving average (see chart).

Turning to my Gold-Primary Trend Index, we have a low of 300 recorded on November 6. A sharp rally took the G-PTI above a long declining trendline. It's a hopeful hint, but I want to see more.

So -- has anything really important happened in the world of gold? Honestly, I can't tell yet. But I will be impressed if (1) the G-PTI rallies above its recent November high, and (2) if the 34-day (or shorter) moving averages shown on the charts can move above the 144-day (longer term) moving averages. We're waiting.





NEXT MAILING: Dec. 4, 1996

LATE NOTES: The Dow has risen on 10 consecutive days (closing at eight record highs), and a genuine "buying frenzy" is on. You have to marvel at the "spunk" of people who are buying here after such an extraordinary uncorrected run -- but then, public sentiment is now a mixture of greed and no-fear (and, of course, you and I know that the fund managers MUST continue to buy). And what's this -- the Nov. 15 *WSJ* headlines an article suggesting that "The Business Cycle is Tamed" (at least, that's what many economists think). Hot dog, no more cycles, just up and up forever . . . However, I am impressed with the bond action. And I ask myself, are the rising bonds discounting (a) low inflation or even dis-inflation, or (b) a recession in '97. Take your choice.